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Press Release

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The Geneva Association Calls on G-20 to Look Carefully at Fresh Regulation and Supervision

5 November 2009, Geneva – Switzerland. Leading international insurance economics think tank, The Geneva Association, today made clear its concerns about the potential impact of regulatory and supervisory reactions on the insurance industry in the wake of the credit crisis.

With regulation and supervision of the financial services sector on the agenda of the G-20 meeting taking place in St Andrews, Scotland tomorrow (6 November 2009), The Geneva Association has called on Finance Ministers and Central Bank Governors of the G-20 to recognise the key considerations that must be taken into account in order to realise the most successful and constructive outcome from regulatory and supervisory reform of the financial services industry.

The letter calls for any future sector regulation to take into account the specific characteristics of the insurance business model, to avoid pro-cyclical effects and strike an appropriate balance between financial stability, consumer protection and a level competitive playing field.

Letter to the G-20

Sirs,

Progress made under the action plans of the G-20 has contributed to tangible signs of economic recovery. Various indicators show that financial stability has been restored even if further economic and social impacts of the financial crisis are still ahead of us.

A few weeks after very fruitful and intense discussions with insurance supervisors from around the world at the Annual meeting of the International Association of Insurance Supervisors (IAIS), The Geneva Association is pleased to share its views ahead of your meeting on 6 & 7 November 2009. The Geneva Association is a global organisation representing 80 Chief Executive Officers (CEOs) from the world's leading insurance and reinsurance companies.

1. **The (re)insurance Industry acts as stabiliser for the Global Economy.** The (re)insurance sector is a major contributor to the efficient functioning of advanced and emerging economies. It has a long-standing history of being an economic shock absorber and source of capital to support economic growth and social development. It protects people and companies against uncertainty, with a long-term perspective. It provides stability by pooling the risks of insurable perils, thereby enabling individuals and businesses to undertake activities that would individually be too costly or too risky and contributing to economic growth. Exposure to liquidity risk is low, mainly due to its inversed funding cycle. A deep understanding of both the functioning and the role of the (re)insurance sector is necessary to design an adequate regulatory framework preserving the role of the industry as a key contributor to financial stability and economic growth.
2. **Governments, supervisors and all market participants, including the (re)insurance industry, must draw from the lessons of the crisis.** There is a general consensus that the (re)insurance industry was not at the origin of the financial crisis. Overall, it weathered the crisis relatively well, even though it was not immune from the turmoil. Business models of financial institutions vary from one sector to another, and this is reflected in differences in the supervisory regimes. It is vital that the specificities of (re)insurance are taken into account in the design of any new supervisory architecture and rules governing the (re)insurance sector. For its part, insurers and reinsurers have drawn their lessons from the crisis, including recognition of the need to continue to strengthen their internal risk governance to respond to changing market conditions.
3. **Macro-prudential supervision is necessary and the (re)insurance supervisory sector should be appropriately represented on macro-supervisory boards.** In light of the recent financial crisis, there is a need to monitor overall macro-economic risks that could threaten the stability of the financial services sector. This monitoring should be based on a sound understanding of the different risk characteristics of the sectors of financial services. Insurers and reinsurers are less exposed to liquidity risk, not highly leveraged and less interconnected within the financial services industry. Therefore, the identification and assessment of potential sources of systemic risk requires a sound understanding of the (re)insurance industry, particularly given its important role as a financial investor. Against this background, (re)insurance expertise should be adequately represented in the Financial Stability Board (FSB) and any other macro-supervisory boards and relevant working groups. We are ready to work together with the regulatory community on the question of what could possibly constitute a systemic risk for (re)insurers.
4. **Macro-prudential supervision should go beyond the mere supervision of institutions qualified as “systemic”.** Thanks to supervision and existing reserving mechanisms, regulators can intervene early on in the event that a (re)insurer encounters financial difficulties. In the event of an (re)insurer’s failure, competitors will easily provide capacity and services. Moreover, size is an element of risk mitigation in the case of (re)insurers as the value proposition of (re)insurance relies on risk pooling and diversification. The temptation to establish a list of so-called “systemically relevant institutions” could paradoxically make the whole system riskier, potentially affecting the level playing field between institutions and introducing moral hazard.
5. **Overly prudent capital requirements should not be imposed on the (re)insurance industry.** As stated above, the (re)insurance industry has weathered the global financial crisis relatively well. Its business model and characteristics fundamentally differ from those of the banking sector and it is vital that future regulatory proposals should appropriately distinguish between the two sectors. In particular, the (re)insurance sector’s financial performance during the crisis evidences that there is no need for overly prudent capital requirements to be imposed on the sector. Moreover, the temptation to use macro-prudential oversight to justify overly prudent requirements on the levels of capital in the (re)insurance sector should also be resisted.
6. **There should be a more globally consistent supervisory and regulatory framework including effective group supervision.** We support the G-20 call for a more globally consistent supervisory and regulatory framework to ensure a level playing field and to avoid regulatory arbitrage. There is clearly a need for greater co-ordination and information sharing between supervisory authorities and this is especially true at the international level. The IAIS plays a central role in fostering international cooperation and consistency. The Geneva Association also calls for a comprehensive and coordinated supervision of cross-border groups under the lead of a fully recognised group supervisor, whereby consistent decisions apply to the group and its constituents.

Effective Group Supervision is a prerequisite to efficient micro- and macro-prudential supervision. During the crisis, group supervision—where it was enforced—strengthened the capacity of the industry to weather market turmoil. Robust risk management tools put in place to address risk-sensitive micro prudential requirements could also be used to refine macro-rudential tools assessment.

The industry stands ready to further contribute to the debates and to meet with the G-20, the International Monetary Fund (IMF), the Bank for International Settlements (BIS) and the FSB and their working groups. The Geneva Association is confident that a strong (re)insurance industry is a key ally in our common quest to restore sustainable economic growth and create jobs.

Sincerely yours,

Dr Nikolaus von Bomhard
*President of The Geneva Association
Chairman of the Board of Management, Munich Re Group*

Patrick M. Liedtke
*Secretary General and Managing Director
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About The Geneva Association

The Geneva Association is the leading international insurance “think tank” researching strategically important insurance and risk management issues.

The Geneva Association identifies fundamental trends and strategic issues where insurance plays a substantial role or which influence the insurance sector. Through the development of research programmes, regular publications and the organisation of international meetings, The Geneva Association serves as a catalyst for progress in the understanding of risk and insurance matters and acts as an information creator and disseminator. In parallel, it advances—in economic and cultural terms—the development and application of risk management and the understanding of uncertainty in the modern economy.

The Geneva Association membership comprises a statutory maximum of 80 Chief Executive Officers (CEOs) from the world’s top (re)insurance companies. It organises international expert networks and manages discussion platforms for senior insurance executives and specialists as well as policy-makers, regulators and multilateral organisations. The Geneva Association’s annual General Assembly is the most prestigious gathering of leading insurance CEOs worldwide.

Established in 1973, The Geneva Association, officially the “International Association for the Study of Insurance Economics”, is based in Geneva, Switzerland and is a non-profit organisation funded by its members.

For more information please visit www.genevaassociation.org